

Message Text

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ACTION AF-10

INFO OCT-01 NEA-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

FRB-03 INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02

OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 FEAE-00 INT-05 AGRE-00 /094 W

-----085949 071320Z /46

R 071148Z JUL 77

FM AMEMBASSY KHARTOUM

TO SECSTATE WASHDC 4802

INFO AMEMBASSY ABU DHABI

AMEMBASSY CAIRO

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 1 OF 2 KHARTOUM 2257

E.O. 11652: GDS

TAGS: ECON, EFIN, SU

SUBJECT: SUDAN'S BALANCE OF PAYMENT DIFFICULTIES

REF: (A) KHARTOUM 111; (B) KHARTOUM A-31

BEGIN SUMMARY: BANKING SOURCES HAVE OBSERVED THAT SUDAN'S CENTRAL BANK IS HAVING DIFFICULTY PROVIDING FOREIGN EXCHANGE FOR ESSENTIAL IMPORTS. WHILE FIGURES ARE NOT AVAILABLE ON EXTENT OF OVERDUE PAYMENTS, THERE ARE INDICATIONS THAT BANK OF SUDAN MAY BE LOSING CONTROL. ALTHOUGH SUDAN FOR LAST SEVERAL YEARS HAS BEEN DEPENDENT ON SAUDI ARABIA FOR PAYMENTS ASSISTANCE, PROSPECT OF EARLY SAUDI BOP ASSISTANCE RECEDING DESPITE PROMISES. ONE HUNDRED MILLION DOLLAR COMMERCIAL CREDIT NOW BEING SYNDICATED APPARENTLY WILL NOT PROVIDE MUCH RELIEF. ONLY SHORT RUN ALTERNATIVE MAY BE GREATER PRE-EXPORT FINANCING OF COTTON, BUT AMOUNT ALREADY FINANCED NOT KNOWN. DESPITE GENEROSITY OF DONORS FOR PROJECT ASSISTANCE AND MAJOR COMMITMENTS OF ARAB INVESTMENT FUNDS, SUDAN WILL HAVE TO TRIM AMBITIOUS INVESTMENT PLANS. END SUMMARY.

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1. BANK OF SUDAN (BOS) IS HAVING DIFFICULTY IN PROVIDING FOREIGN EXCHANGE FOR CERTAIN ESSENTIAL IMPORTS. AMERICAN BANK HANDLING L/C'S FOR PETROLEUM IMPORTS FROM KUWAIT AND INSECTICIDES FROM US REPORTS THAT BOS UNABLE TO RAISE SUFFICIENT FOREIGN EXCHANGE TO PERMIT CONFIRMATION OF DOCUMENTS. BOTH PETROLEUM AND INSECTICIDES ARE IN PORT SUDAN AND WERE SOLD ON BASIS SIGHT DRAFTS WHICH BOS UNABLE TO HONOR.

SITUATION APPEARS ALARMING PARTIALLY BECAUSE AMOUNTS ARE RELATIVELY SMALL (PETROLEUM 1.6 MILLION DOLLARS AND INSECTICIDES 1.4 MILLION).

2. AMERICAN BANKER HAD IMPRESSION THAT BOS OFFICIALS VERY CONCERNED ABOUT THEIR ABILITY TO MEET OBLIGATIONS. BOS (WHICH HAS RELATIVELY GOOD RECORD IN KEEPING CREDITORS IN LINE) APPEARED TO BE LOSING CONTROL AS IT TRIED TO MATCH RECEIPTS WITH MOST PRESSING OBLIGATIONS. HE FELT THAT BOS HAD BEEN ORDERED TO RAISE NECESSARY MONEY TO PAY EXPORT BILLS BUT THAT CREDIT NOW EXHAUSTED. THIS AMERICAN BANK OWED 6.6 MILLION DOLLARS IN OVERDUE PAYMENTS. IT IS OFFERING 10 MILLION IN CREDITS AGAINST SECURITY OF IRREVOCABLE L/C'S FOR COTTON EXPORTS ON CONDITION OVERDUE ACCOUNTS ARE REDUCED BY 2 MILLION DOLLARS IN ADVANCE. BOS APPARENTLY HAS BEEN UNABLE TO RAISE THIS 2 MILLION.

3. FOR MORE THAN YEAR, BOS HAS BEEN OVERDUE IN MEETING OBLIGATIONS TO VARIOUS CREDITORS. GENERALLY, FOREIGN BANKS ANTICIPATED APPROXIMATE LATENESS OF PAYMENTS. UDICIOUS DUNNING NORMALLY PRODUCED A PYAMENT OR TWO AND SOME PRIORITY OVER OTHER CREDITORS. VISITS BY FOREIGN BANKERS USUALLY PRODUCED PAYMENTS ARRANGEMENTS WHICH WERE AT LEAST HONORED FOR SOME MONTHS. HOWEVER, FOR FIRST TIME EMBASSY AWARE, BOS HAS NOT HONORED ONE OF THESE REPAYMENT ARRANGEMENTS. IN THIS CASE, BOS HAS AGREED IN MAY TO PAY 2 MILLION DOLLARS OF 4 MILLION

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OVERDUE BY JULY 1. HOWEVER, OVERDUE BALANCE ROSE BY ADDITIONAL 2.4 MILLION.

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OPIC-03 SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05
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R 071148Z JUL 77

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AMEMBASSY CAIRO
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AMEMBASSY KUWAIT

C O N F I D E N T I A L SECTION 2 OF 2 KHARTOUM 2257

4. BOS HAS BEEN WAITING FOR APPARENTLY PROMISED BALANCE OF PAYMENTS ASSISTANCE OF SEVERAL HUNDRED MILLION DOLLARS SINCE KING KHALED'S VISIT TO SUDAN LAST YEAR. ONLY BOP ASSISTANCE RECEIVED FROM SAUDI ARABIA THIS YEAR WAS 26 MILLION DOLLARS OF EX-POST FACTO PROJECT FINANCING FOR KASSALA-HAYA ROAD (SEE REF A). AT SAME TIME, IT APPEARS SUDANESE OFFICIALS ARE NOT PRESSING SAUDIS FOR BOP ASSISTANCE WHILE THEY ARE GIVING PRIORITY TO THEIR REQUESTS FOR MILITARY ASSISTANCE IN FINANCIAL DISCUSSIONS WITH SAUDIS. SUDANESE TOP OFFICIALS APPEAR TO BE IGNORING THEIR CONTINUED DEPENDENCE ON SAUDI ARABIA FOR BOP SUPPORT. (IN 1976 SAUDI ARABIA DEPOSITED 100 MILLION DOLLARS WITH BOS. SAMA GUARANTEE OF 200 MILLION DOLLAR EURO-DOLLAR FINANCING OF SUDAN DEVELOPMENT CORPORATION IN 1974 HAD IMMEDIATE IMPACT OF PROVIDING BOP SUPPORT FOR 1975). THUS, THE PROSPECT OF SAUDI BOP SUPPORT APPEARS TO BE RECEDING.

5. WELLS FARGO BANK IS CURRENTLY MARKETING 100 MILLION DOLLAR CREDIT FOR SUDAN SECURED BY COTTON EXPORT DOCUMENTS. EMBASSY HAD HAD IMPRESSION THAT RECEIPT OF THIS CREDIT WOULD
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ALLOW BOS TO SATISFY OVERDUE CREDITORS AND PROVIDE SOME ADDITIONAL LIQUIDITY. HOWEVER, SAME AMERICAN BANKING SOURCE INDICATED THAT WHILE WELLS FARGO CREDIT MAY BE 80 PERCENT SUBSCRIBED, PRACTICALLY ALL PROCEEDS ARE DIRECTLY COMMITTED FOR OVERDUE PAYMENTS. MEMBER BANKS OF WELLS FARGO SYNDICATION ARE REQUIRING AS CONDITION FOR THEIR PARTICIPATION PAYMENT OF OVERDUE AMOUNTS. IN EFFECT, WELLS FARGO CREDIT WILL EXCHANGE FOREIGN BANK UNSECURED OVERDUE CREDITS FOR SECURED CREDITS.

6. CURRENT DIFFICULTIES IN FINANCING PETROLEUM AND ESSENTIAL AGRICULTURAL IMPORTS MAY BE FIRST INDICATION THAT BOS HAS LOST CONTROL OF PAYMENTS SITUATION. FOR MONTHS BOS OFFICIALS HAVE NOT BEEN WILLING TO QUANTIFY VOLUME OF THEIR OVERDUE OBLIGATIONS. IMF MISSION DURING MAY-JUNE VISIT WERE NOT ABLE TO ESTIMATE VOLUME OF THESE OBLIGATIONS. IT IS QUITE POSSIBLE THAT BOS ITSELF DOES NOT KNOW FIGURE. ON RECEIPT SIDE, EXTENT OF PRE-EXPORT FINANCING OF THIS YEAR'S 400 MILLION DOLLAR PLUS OF COTTON SALES IS UNKNOWN. BOS HAD

BEEN RELUCTANT TO RESORT TO THIS MEANS OF FINANCING, BUT
IT MAY BE ONLY SHORT RUN ALTERNATIVE.

7. IRONICALLY, BOP CRISIS MAY BE EMERGING AT SAME TIME
ECONOMY'S EXPORT PERFORMANCE SHOWING SUBSTANTIAL
IMPROVEMENT, ASSISTANCE DONORS (BILATERAL AND MULTILATERAL)
ARE AGGRESSIVELY MAKING COMMITMENTS FOR PROJECT DEVELOPMENT
ASSISTANCE AND FOREIGN INVESTORS ARE MAKING LARGE COMMITMENTS.
(FOR EXAMPLE, ON INVESTMENTS SIDE, KUWAITIS HAVE INCREASED THEIR
COMMITMENT TO KENANA SUGAR PROJECT BY AN ADDITIONAL 250 MILLION
DOLLARS AND ARE PUSHING 100 MILLION DOLLAR REAL ESTATE
INVESTMENT.) THE GEOEROSITY OF SUDAN'S WEALTHY ARAB BROTHERS
MAKES IT VERY DIFFICULT TO PRESS FOR BOP ASSISTANCE. YET,
WITHOUT BOP SUPPORT, SUDAN WILL HAVE TO TRIM ITS AMBITIOUS
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INVESTMENT PLANS. IT IS VERY DIFFICULT TO SEE HOW FINANCING
WILL BE FOUND FOR MANY PROJECTS SCHEDULED TO BE STARTED IN
COMING YEAR--DESPITE CONTINUED OPITIMISTIC STATEMENTS OF
SUDANESE GOVERNMENT OFFICIALS.
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